

Karen Haley

To : Hamish Maxwell

cc. TG, WTM, GEX,
JRH, LR, CW (PM EEC)
F.H. Dulles, T.M. Kearns,
R.W. Murray, L. Pollak,
R.L. Snyder,
M. Journot (PMI)

FLASH FOR WEEK ENDING DECEMBER 10, 1982

I. LEGAL

1. E.E.C.

- a) The draft new agreement to replace the existing Agreement and Partnership Note was given to RG via Slaughter & May on December 9. It is planned to meet with Rembrandt's counsel on December 13 in London to discuss the redrafted agreement. The objective is to agree on a restated text to be given for review to PM and Rembrandt management, by December 17, to enable discussions to commence in January 1983 with the EEC.
- b) We learned that any discussions with the EEC will probably not delay their procedure of handling the case as it stands today. It is believed they will soon begin drafting a decision (presumed to be negative for us) for preliminary circulation in January 1983, but this may be withheld until the end of January.
- c) The information requested by the EEC from RTH was filed on December 2, 1982.

EEC General

- d) EEC Legal Affairs Committee discussed the amended Commission proposal on merger control on October 19 and 20. The committee appeared to be split between those who felt that under present economic conditions, concentrations could be desirable to fight foreign competition and those who felt control is necessary to ensure competition. Agreement was not possible and it was reported that the commission have been asked to withdraw its proposal and submit a new one.

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2. Germany

- a) The Court of Appeal informed us that Reemtsma applied for an extension until December 31, 1982 to file their brief. The Court indicated that the delay will be granted but that the dates for filing the PM briefs and the oral hearing will not be extended. We have advised the Court that we must be entitled to extend the dates if the extension granted to Reemtsma will delay the preparation of our submission.
- b) The economic opinion submitted by Prof. Albach (engaged by Rembrandt) is not regarded as suitable, and will probably not be used.
- c) The draft opinion of Prof. Gutowski has been further amended but our lawyers are not yet satisfied with it. A final decision on whether to use Prof. Gutowski's opinion is being deferred for the time being.
- d) Our lawyers now feel there is a need for further support to Prof. Bernhardt's brief on conflict of laws. This is being done by the engagement of Prof. Fikentscher.
- e) The South African government, through the Ministry for Industry, Trade and Tourism, submitted a Diplomatic Note on October 5, 1982 to the German Foreign Office. The South African government states that :
 - 1) The transaction between PM and RG has worldwide considerations.
 - 2) They do not accept the extra-territorial claims of the FCO.
 - 3) The rights of South African citizens to freely dispose of their property is being unjustifiably curtailed.
 - 4) The decision of the Bundeskartellamt is incompatible with the rule of non-interference in international law.

The German Foreign Ministry asked the German Ministry of Economic to review the matter and prepare answers.

- f) RJR submitted a substantial brief to the Berlin Court, which we have now received. The brief contains a marketing analysis attempting to show that the German market is static, as well as supporting opinions as follows :
 - Economic view - Prof. Kaufer
 - Law of Nations - Prof. Meesen
 - U.S. Antitrust law - D.F. Turner of Wilmer Cutler & Pickering - Washington
 - U.K. Merger law - Sir Anton Roskill, q.c.
- g) A meeting has been arranged in Munich on December 14 with the German lawyers, W.T. Martin and B. Roos (PM Germany) to commence preparation of the marketing presentation to be given in the Oral Hearing.

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3. Australia

- a) David Hoare has confirmed that Reynolds have retained Allen Allen & Hensley, of Sydney, as legal advisors. We do not know the exact details of the legal opinion given to Reynolds, but we believe the legal advice is the same as given to PM i.e. existing laws in Australia do not apply to our situation. The two partners of Allen Allen & Hensley (Roger G. Blunt and Philip Kerr) acting on behalf of Reynolds, are believed to be making contacts in Canberra to lobby for changes in Australian Foreign Investment law, pointing out the "loophole" in the law as regards off-shore transactions. We are trying to find out more information on this matter.
- b) It does not appear likely that an answer will be given by Mr. Nixon, Minister of Primary Industry to the question raised by Mr. Kerin before Christmas. PM Australia are active in providing information to the office of Mr. Nixon to be used in the preparation of an appropriate answer.

II. OPERATIONS

Holland

Press reports indicate that Laurens - The Hague - requested their unions to agree to a 10% working time reduction (40 to 36 hours per week), coupled with a 10% salary reduction. Lower sales have resulted in over-manning, and the scheme aims at saving 60 jobs out of the present manpower of 520 employees. It was also reported that earlier management offers for earlier retirement or voluntary resignation bonuses did not bring about a reduction in the number of employees.

III. PLANNING

Chesterfield

- a) It is now planned to have a meeting in January with Mr. Gladice of Brinkmann to discuss our response to the proposals Brinkmann and Tabacofina have made in relation to the Chesterfield trademark license.

- b) U.S. Licence Agreement

PM's comments to Rembrandt's draft were mailed to Stellenbosch on Monday, November 6, 1982

IV. FINANCIAL

1. RI

The results for RI for the six months ended 30 September 1982 were announced on December 8 and they are as follows:

	6 months to 30/9/82 £ m/c	6 months to 30/9/81 £ m/c	Year to 31/3/82 £ m/c
Sales Revenue	<u>1,543.7</u>	<u>1,442.7</u>	<u>2,766.7</u>
Profit before interest and taxation :			
Operating profit	64.7	54.2	107.7
Share of operating profits of associated companies	<u>15.0</u>	<u>12.5</u>	<u>24.1</u>
Historic cost operating profit	79.7	66.7	131.8
Net interest expense	<u>12.2</u>	<u>14.1</u>	<u>26.6</u>
Profit before taxation	67.5	52.6	105.2
Taxation	<u>24.1</u>	<u>24.0</u>	<u>40.8</u>
Profit after taxation	43.4	28.6	64.4
Attributable to minority interests	<u>10.3</u>	<u>9.3</u>	<u>17.1</u>
Profit after taxation and minority interests	33.1	19.3	47.3
Extraordinary item	-	<u>2.8</u>	<u>2.6</u>
Profit attributable to Rothmans International	<u>33.1</u> =====	<u>22.1</u> =====	<u>49.9</u> =====

An interim dividend of 1.30p per share (equivalent to 1.8571p gross) will be paid on January 26, 1983. This compares with a dividend of 1.15p per share (1.642p gross) paid last year (PM share approximately \$ 720,000).

Preliminary examination of the figures available shows that despite volume decline, the favorable results were caused by:

- Favourable currency impact due to weakened pound compared with previous period, especially when translating Export earnings, Canadian & Australian results.

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- Much improved profits in the UK from export sales (due to higher margins and currency) and the fact that these these profits were not taxed due to carry forward losses.
- Favourable tax impact as above; Excluding associated companies, the effective tax rate fell from 47.2% to 34.6%; almost £ 7 million is due to this factor.
- Better results from Brewing operations.

In addition, examination of the accounts leads to the belief that certain provisions were taken (maybe Tabacofina?). Further analysis is now being prepared.

2. Rothmans Canada

Rothmans of Pall Mall Canada announced their results for the half year ended 30 September 1982 :

	Half years to		Change
	30/9/82	30/9/81	
	C\$	C\$	%
Trading profits.			
- Tobacco	23236	16687	+ 39
- Brewery	34628	23034	+ 50
	57864	39721	+ 46
Interest	(1622)	(1244)	
Profit before tax	56242	38477	+ 46
Tax	(23212)	(16600)	
(Rate %)	(41.3%)	(43.1%)	
Minorities	(10569)	(7011)	
	22461	14866	+ 51
	=====	=====	

Price increases in October 1981 and June 1982 improved the results of the tobacco division despite a slight drop in volume. In the prior year the results were also affected by strikes in the first two months which were not repeated this year.

Carling O'Keefe increased its market share (by 1%) although beer volume was down in the period. Margins were much improved and this is reflected in Carling's 50% increase in Trading Profit.

3. Dunhill plc

Dunhill Holdings reported pretax profits of £ 2.36 mio. (£ 2.09 mio. last year) for the six months to 30 september 1982.

4. Bonds

Notices of conversion have been received by RI from the owners of convertible bonds totalling £ 687,500. These bonds will convert into 1,018,501 shares (.65% of existing equity). T. Gorham will meet with M. Gatenby (Hill Samuel) on December 15 to discuss procedures and implications of PM and/or RG converting bonds. We are contemplating a possible joint PM/Rembrandt approach to the Panel in London in January to discuss the matter.

5. Equity Accounting of RTH

It has been agreed that RTH will Equity Account for its investment in RI and its first such accounts, covering the year end March 1982, will be available in January 1983.

6. Quarterly Reporting

We are expecting to receive RI Quarterly Accounts for the period ending September during the week ending December 17, 1982.

7. The following information was received from T. Roux concerning RI :

- 1) October Unit Volume - 15.1% below last year
- 2) April - October volume - 4 % below the same period last year
- 3) 12 month moving annual total to October - 4.6% down on prior period

The markets in which the October shortfall has taken place are:

Germany - Market decline - loss of market share
U.K. - Reaction to overbuying in earlier months
Netherlands - Market decline
Canada - Reaction to overbuying in earlier months
Middle East - Reduction in transit sales.
Further details will be available in the monthly report.

8. Brinkmann

- a) The purchase by Brinkmann of 50% of Rowenta has been announced in a Berlin Press Conference on December 10. The purchase price of DM 60 mio appears to be high in relation to Rowenta's profits in the last financial year of DM 1.8 mio. However, future savings (incl. possible move of some production facilities to Berlin), tax benefit and re-invoicing arrangements are expected to have a beneficial impact on Rowenta. Mr. Klarmann and Mr. Giudice will be appointed to the Rowenta board.
- b) The extension of investments by Brinkmann Holdings is aimed at showing that the company is a bona fide holding company with numerous equity positions in various companies, and not as a fiction established for tax purposes. The recognition of this position by the German Tax Authorities is likely to give the German operations of Brinkmann an overall tax benefit of DM 18 mio, per annum, provided such profits exist.
- c) Furthermore, this is also expected to settle back tax claim from 1979 for a tax benefit of approximately DM 50 mio in favour of Martin Brinkmann.

d) It has also been announced that the Headquarters of Brinkmann Holdings will be moved from Bremen to Berlin. The reason for the move is to receive tax benefits in the form of a reduced tax rate on dividends flowing to a holding company in Germany from Martin Brinkmann A.G. and other subsidiaries.

e) We have been advised that Brinkmann are considering a joint venture with Raab Karcher to build sports and leisure center under the name LORD. Raab Karcher are a substantial company (turnover DM 13 billion) involved in many industries.

5. GENERAL

Share Price

Closing Price of	Nov. 26, 1982	Dec. 3, 1982
Rothmans International (£)	131p	132p
RI Convertible £/Bonds (DM)	3695	3721
Dunhill (£)	320p	310p
Carrolls (Irish £)	69p	69p
Tabacofina (BF)	2650	2575
Rothmans of Pall Mall Canada (Can.\$)		
- Common	37-1/4	38
- Preferred B	12-1/2	12-1/4
Carling O'Keefe (Can.\$)		
- Common	10-7/8	11-1/2
- Preferred A	20	19-3/4
Rothmans of Pall Mall Australia (Aus.\$)		
- Sydney	5.20 ^	5.50 ^
Rothmans Industries, N.Z. (N.Z.\$)	1.40	1.40
Rothmans of Pall Mall Malaysia (Sing.\$)	2.87	2.85
Rothmans Industries Ltd (Sing.\$)	1.59	1.54

Following the RI announcement, their share price declined to 125p. In general, press comments appear to highlight the currency and tax impact on RI's improved results in the absence of volume increase.

Rembrandt Group

Rembrandt announced pre-tax profits for the 6 months to September 30, amounting to R 90 million compared to R 85.9 million in the previous year (3.6% increase). No forecast was made for the rest of the year and the interim dividend was increased from 23 cents to 30 cents a share.

A possible reason for the small increase is the reduction in interest income on the large cash holdings resulting from lower overall interest rates.

Regards,

E. Houminer

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